

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company	:	
	:	
Proposed General Increase	:	
In Rates For Gas Service	:	No. 14-0224
	:	and
	:	No. 14-0225
The Peoples Gas Light and Coke Company	:	Consol.
	:	
Proposed General Increase	:	
In Rates For Gas Service	:	

Rebuttal Testimony of
JOYLYN C. HOFFMAN MALUEG
Rate Case Consultant – Regulatory Affairs
Integrus Business Support, LLC

On Behalf of
North Shore Gas Company and
The Peoples Gas Light and Coke Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 **Q. Please state your name and business address.**

4 A. My name is Joylyn C. Hoffman Malueg. My business address is Integrys Energy Group,
5 Inc. (“Integrys”), 700 North Adams Street, P.O. Box 19001, Green Bay, Wisconsin
6 54307-9001.

7 **Q. Are you the same Joylyn C. Hoffman Malueg who provided direct testimony on**
8 **behalf of The Peoples Gas Light and Coke Company (“Peoples Gas”) and North**
9 **Shore Gas Company (“North Shore”) (together, “the Utilities”) in these**
10 **consolidated dockets?**

11 A. Yes.

12 **B. Purpose of Rebuttal Testimony**

13 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

14 A. The purpose of my rebuttal testimony is to respond to issues raised by the Illinois
15 Industrial Energy Consumers (“IIEC”) witness Brian C. Collins in these proceedings
16 concerning the embedded cost of service studies (“ECOSSs”) and their proper cost
17 allocation. I also reviewed IIEC witness Amanda M. Alderson’s testimony and exhibit.
18 Specifically, my testimony addresses Mr. Collins’ direct testimony regarding:

- 19 1. the allocation of transmission and distribution (“T&D”) assets and costs
20 within the ECOSSs.

- 21 2. the allocation of mains smaller than 4 inches in diameter to Service
22 Classification (“S.C.”) No. 4, Large Volume Demand Service, within the
23 ECOSSs.
- 24 3. an across-the-board increase, which would be based upon each Utilities’
25 overall percentage of revenue deficiency.

26 **C. Summary of Conclusions**

27 **Q. Please summarize the conclusions of your rebuttal testimony.**

28 A. In brief, the conclusion of my rebuttal testimony is that the ECOSSs initially filed by the
29 Utilities within my direct testimony (PGL Exhibits (“Exs.”) 14.1 through 14.8, and NS
30 Exs. 14.1 through 14.8) are a reasonable estimate of revenue requirements by customer
31 class, and are a reasonable basis for supporting the rates initially proffered in this case by
32 the Utilities’ witness Ms. Debra Egelhoff. Mr. Collins’ proposed changes to the ECOSSs
33 are not warranted. Ms. Egelhoff addresses his rate design proposals in her rebuttal
34 testimony (NS-PGL Ex. 29.0).

35 **D. Itemized Attachments to Rebuttal Testimony**

36 **Q. Are there any attachments to your rebuttal testimony?**

37 A. Yes. I am sponsoring the following exhibits:

- 38 • NS-PGL Ex. 28.1 – Utilities’ responses to IIEC data requests providing
39 information on their T&D systems and allocation methods utilized against these
40 costs in past dockets
- 41 • NS-PGL Ex. 28.2 – Service Classifications served directly by small and large
42 distribution mains
- 43 • NS-PGL Ex. 28.3 – Correction made to Mr. Collins’ IIEC Ex. 1.1

II. ALLOCATION OF T&D ASSETS AND COSTS WITH ECOSS

Q. Please summarize the ECOSS issue with respect to allocation of T&D assets and costs addressed in the direct testimony of parties in this proceeding.

A. IIEC witness Mr. Collins proposes to allocate T&D assets and costs on the basis of the Coincident Peak demand allocation method. Collins Dir., IIEC Ex. 1.0, 24:520-528. Illinois Commerce Commission (“Commission”) Staff witness Mr. William R. Johnson has no objection to the use of the Average and Peak demand allocation method against T&D costs. Johnson Dir., Staff Ex. 4.0, 7:160-8:162.

Q. How do the Utilities allocate demand classified T&D assets and costs within the ECOSSs?

A. As stated within my direct testimony (PGL Ex. 14.0 and NS Ex. 14.0), the Utilities utilize the Average and Peak demand allocation method.

Q. Why do the Utilities allocate demand classified T&D assets and costs within the ECOSSs with the Average and Peak demand allocation method?

A. As stated within my direct testimony, there are a few reasons why the Utilities utilize the Average and Peak demand allocation method against demand classified T&D assets. First, the Commission directed the Utilities to use the Average and Peak demand allocation methodology (please see ICC Docket Nos. 07-0241/07-0242 (cons.) (“2007 Rate Cases”), Order Feb. 5, 2008, p. 199). The Utilities have utilized the Average and Peak demand allocation methodology in ECOSSs filed in dockets since then against both T&D assets and costs to limit the scope of contested issues, and use of that method has

65 been uncontested. The Utilities have again used the Average and Peak demand
66 methodology in this proceeding.

67 **Q. Is the Average and Peak demand allocation method a reasonable allocation method**
68 **to apply against demand classified assets and costs?**

69 A. Yes. Many arguments were presented in the 2007 Rate Cases with respect to the Average
70 and Peak demand allocation method as well as the Coincident Peak demand allocation
71 method that Mr. Collins (Collins Dir., IIEC Ex. 1.0, 4:94 - 19:413) advocates in this case.
72 After reviewing the many arguments within the record of that docket for both methods,
73 the Commission found that the use of the Average and Peak demand allocation method
74 was reasonable. Additionally, the National Association of Regulatory Utility
75 Commissioners (“NARUC”) in its Gas Distribution Rate Design Manual (“Gas
76 Manual”), June 1989, states at pages 27-28 that the Average and Peak demand allocation
77 method is a commonly used demand allocator for natural gas distribution utilities, and
78 that this method “tempers the apportionment of costs between the high and low load
79 factor customers.” Lastly, Staff witness Mr. Johnson states that he has no objection to the
80 use of the Average and Peak demand allocation method against T&D costs. Johnson
81 Dir., Staff Ex. 4.0, 7:160-8:162.

82 **Q. Is Mr. Collins correct that the Utilities supported the Coincident Peak allocator for**
83 **T&D investment in prior cases. Collins Dir., IIEC Ex. 1.0, 18: 373-384?**

84 A. Yes. In the 2007 Rate Cases, which I discussed above and within the Utilities’ responses
85 to IIEC data requests¹, the Utilities proposed a Coincident Peak allocator. However, the

¹ Please see NS-PGL Ex. 28.1, the Utilities’ responses to IIEC data requests IIEC 6.02 and IIEC 6.14.

Commission rejected that allocator and, subsequent to that case, the Utilities have consistently used an Average and Peak allocator for T&D investment.

Q. Are there other reasons as to why the Average and Peak demand allocation method provides a more reasonable allocation method to apply against demand classified assets and costs than a Coincident Peak demand allocation method?

A. Yes. While IIEC witness Mr. Collins continually remarks that the Utilities' T&D system is designed to meet peak day demand, the Utilities repeatedly stated in data responses to the IIEC that peak day demand, while being the primary factor, is not the only factor that is taken into consideration when designing the system². Mr. Collins agreed, in response to NS-PGL data request IIEC 2.06, that coincident peak demands are not the only factor when designing a T&D system. The Average and Peak demand allocation method is a reasonable method that provides "compromise" and "tempers" cost apportionment (NARUC, Gas Manual, June 1989). Mr. Collins, in response to NS-PGL data request IIEC 2.08, agrees that the NARUC manual is an authoritative source.

Q. Do the Utilities agree with Mr. Collins' statements within his direct testimony (Collins Dir., IIEC Ex. 1.0, 5:113-116) that the Average and Peak demand method should be discredited because it double-counts Average Demands?

A. No. While numerically, a customer's Average Demands are lower than a customer's Peak Demand, the Utilities are not convinced by Mr. Collins' theory that Average Demands are being double-counted within the Average and Peak demand allocation

² Please see NS-PGL Ex. 28.1 for examples of other factors that the Utilities consider when designing the T&D system.

method. Nor does the NARUC in its Gas Manual provide any criticism against the Average and Peak demand method based upon a double-counting premise.

Coincident Peak demand can generally be described as either a customer's or customer classes' demand at the time of system peak. Average Demand is calculated by simply taking a customer's, or customer classes', annual usage and dividing it by the 365 days in a year to arrive at an average daily usage, or sometimes referred to as Average Demand. These are two different mathematical calculations and terminologies, and Mr. Collins' agrees with this fact³. Yet, simply because average demand values are smaller than coincident peak demand values should not imply that the Average and Peak demand allocation method should be discredited because it is "double-counting".

The theory that an Average and Peak demand allocation method is premised upon is this: demand costs are attributable to both average use as well as peak demand. To align with this theory, the Average and Peak demand allocation method mathematically combines average usage and peak demand to appropriately allocate capacity costs based upon that cost causation theory. Furthermore, the Average and Peak demand allocation method also mathematically weights the portion of the allocator that is to be based upon average demand by the system load factor, further aligning the theory that it is premised upon. Mr. Collins confirms the accuracy of this calculation, as he has portrayed the formula on page 6 of his direct testimony as part of his Diagram 1.

Lastly, it should be noted that Mr. Collins' Diagram 1 at page 6 of his direct testimony is unclear. The title of his Diagram 1 is "Average and Peak Method", and the formula portrayed in this diagram is the calculation of the Average and Peak demand allocation, both of which give the impression that the diagram is portraying, in columnar

³ IIEC responses to NS-PGL data requests IIEC 2.15 and 2.16

format, the calculation of the Average and Peak demand allocation method. Yet, the columns of his diagram portray Average Demand and Peak Demand (*i.e.*, Factor 1 and Factor 2, respectively), in their entirety, when an accurate depiction of the Average and Peak demand allocation methodology would weight Factor 1, Average Demand, by the system load factor (or LF, as displayed in the Diagram 1 formula), and weight Factor 2, Peak Demand, by 1 minus the system load factor (or $(1 - LF)$, as displayed in the Diagram 1 formula).

Q. Do the Utilities agree with Mr. Collins' calculations as shown in his IIEC Ex. 1.1?

A. No. Mr. Collins' calculations are incorrect for both Utilities under the section "Peak and Average Allocation". The formula in the Amount column for this section is incorrectly applying the system load factor to the Coincident Peak demand portion of this calculation, when the system load factor should appropriately be applied to the average use portion of the calculation. Correction to this formula within Mr. Collins' IIEC Ex. 1.1, *i.e.*, applying the system load factor against the average use, $(1 - \text{system load factor})$ against the coincident peak demands, and then summing these two parts to create the Average and Peak demand allocation method, would be consistent with the Average and Peak demand allocation method portrayed in the Utilities' PGL Ex. 14.5 and NS Ex. 14.5, as well as with the manner in which the NARUC describes this allocation methodology within its Gas Manual, June 1989. Additionally, it would be consistent with the formula that Mr. Collins displays in his Diagram 1 on page 6 of his direct testimony. NS-PGL Ex. 28.3 is a corrected version of Mr. Collins' exhibit, and shows that the values portrayed in the Amount, Net Plant \$/CCF Peak Day, and Index columns for the "Peak and Average Allocation" section are not as drastically different to the

associated columns under the “Coincident Demand Allocation” section as originally portrayed in Mr. Collins’ IIEC Ex. 1.1.

Q. Mr. Collins refers to customers’ “entitlement” to capacity (Collins Dir., IIEC Ex. 1.0, 11:207-210) and to customers’ “rights to firm distribution capacity.” Collins Dir., IIEC Ex. 1.0, 12:239-242. Please comment.

A. Customers purchase services from the Utilities under the terms and conditions of the Utilities’ tariffs. The customers do not purchase specific rights or entitlements to specific capacity. Instead, they have a right to a particular quality and quantity of service based on the service classifications and riders under which they receive service. Perhaps this is not a substantive difference between the Utilities and Mr. Collins, and just differing terminology, but to the extent the concept of customers having an entitlement or right to particular capacity is driving Mr. Collins’ recommendations, I disagree with that characterization.

III. DELINEATING BETWEEN SMALL AND LARGE DISTRIBUTION MAINS WITHIN THE UTILITIES’ ECOSS

Q. Please summarize the ECOSS issue with respect to delineating between small and large distribution mains addressed in the direct testimony of parties in this proceeding.

A. IIEC witness Mr. Collins proposes to delineate distribution main investment and costs within the ECOSSs between small mains (*i.e.*, pipe diameters smaller than 4 inches), and large mains (*i.e.*, pipe diameters 4 inches and greater). Additionally, Mr. Collins proposes that S.C. No. 4 be removed from the allocation of small distribution mains

based upon the premise that there are a small number of S.C. No. 4 customers taking service directly from small distribution mains.

Q. Do the Utilities delineate between small and large distribution mains within their ECOSs?

A. No, the Utilities do not.

Q. Do the Utilities agree it is appropriate to delineate between small and large distribution mains within their ECOSs?

A. No, the Utilities do not. As shown within the Utilities' responses to IIEC data requests⁴, all service classifications portrayed in the Utilities' ECOSs receive service directly from all sizes of distribution mains. The only purpose of delineating between small and large distribution mains within the Utilities' ECOSs would be to segregate costs such that they can be allocated to the service classifications differently. However, because all of the Utilities' service classifications are served from all sizes of distribution mains, there is no reason to delineate distribution mains within the ECOSs. Additionally, the Utilities' witnesses Mr. David Lazzaro and Mr. Mark Kinzle within their rebuttal testimonies (NS-PGL Exs. 23.0 and 31.0, respectively) explain that the Utilities' distribution systems are an integrated network of various main sizes. Simply because a customer is directly served by a large distribution main does not preclude the fact that a small distribution main is useful in providing service to such customer. Given these reasons, it is not appropriate to delineate between small and large distribution mains within the Utilities' ECOSs.

⁴ Please see NS-PGL Ex. 28.2.

195 **Q. Do the Utilities agree it is appropriate to eliminate allocation of small distribution**
196 **mains to S.C. No. 4 customers within its ECOSs?**

197 A. No, the Utilities do not. As shown within the Utilities' responses to IIEC data requests⁵,
198 there are S.C. No. 4 customers that take service from small distribution mains.
199 Mr. Collins himself acknowledges this. Collins Dor., IIEC Ex. 1.0, 20:447 – 21:449.
200 Given this, it is not appropriate to exclude S.C. No. 4 from the allocation of distribution
201 mains, no matter what size. One of Mr. Collins' two alternatives (response to NS-PGL
202 data request IIEC 2.18) is not, as described below, compatible with the class-based
203 structure of the ECOSs. Specifically, Mr. Collins suggested that, if the three customers
204 taking service from smaller diameter mains remain in the S.C. No. 4 class, then the
205 specific small distribution main costs that pertain to serving these three customers should
206 be directly assigned to the S.C. No. 4 class.

207 **Q. How do the Utilities' ECOSs classify and allocate distribution mains?**

208 A. The Utilities' ECOSs classify distribution mains as demand related, and allocate them to
209 the service classifications based upon the Average and Peak demand allocation method.
210 Distribution mains are not allocated to customer classes within the Utilities' ECOSs
211 based upon customer counts, therefore the Utilities do not see the merit of Mr. Collin's
212 reference and emphasis of the fact that there are only three S.C. No. 4 customers out of
213 180 (total within both Utilities) taking service directly from a main smaller than 4 inches.
214 Additionally, a cost of service study looks at and performs cost allocations to customer
215 classes, as a whole, and is not performed at an individual customer level. A cost of
216 service study is not intended to extract or allocate specific costs for individual customers.

⁵ Please see NS-PGL Ex. 28.2.

Thus, even ignoring Messrs. Kinzle's and Lazzaro's testimony about the operation of the Utilities' systems as an integrated whole, the three S.C. No. 4 customers taking service from smaller diameter main ought not to receive a different cost of service than the other S.C. No. 4 customers, nor should all the S.C. No. 4 customers receive no allocation of smaller diameter main costs when some customers directly receive service from those mains. Similarly, allocating to S.C. No. 4 only the costs of the specific main serving the three customers is a selective exception to the class-based nature of the ECOSSs, and it is not feasible to begin making exceptions for particular costs. Given these reasons, in addition to the explanations above, it is not appropriate to exclude S.C. No. 4 from the allocation of distribution mains, no matter what size.

IV. ACROSS-THE-BOARD INCREASE

Q. Please summarize the ECOSS issue with respect to an across-the-board revenue allocation.

A. IIEC witness Mr. Collins proposes an across-the-board revenue allocation, meaning that each service classification is to receive the same percentage of revenue deficiency as the overall Utility is showing corporately, regardless of what an ECOSS is showing as the revenue deficiency for each individual service classification. Collins Dir., IIEC Ex. 1.0, 24:530-533.

Q. Do the Utilities agree it is appropriate to allocate revenue deficiency by service classification within an ECOSS in an across-the-board manner as proposed by Mr. Collins?

238 A. No, the Utilities do not. I will address the proposal from an ECOSS perspective.
239 Utilities' witness Ms. Egelhoff will address Mr. Collins' proposal from a rate design
240 perspective.

241 Mr. Collins' proposal of an across-the-board revenue allocation does not have
242 merit from an ECOSS perspective. Allocating the same revenue deficiency to each
243 service classification provides no regard to the results of the ECOSSs, which provides the
244 portrayal of cost causation by service classification. While Mr. Collins contends that the
245 Utilities' ECOSSs are flawed, IIEC witness Ms. Alderson provides IIEC Ex. 2.1 at the
246 direction of Mr. Collins (Collins Dir., IIEC Ex. 2.0, 2:30 – 32), to correct what the IIEC
247 has characterized as flaws in the Utilities' ECOSSs. Yet by advocating an across-the-
248 board revenue allocation, Mr. Collins himself chooses to ignore the results of Ms.
249 Alderson's proposed ECOSS results as shown in IIEC Ex. 2.1, which clearly shows
250 differing revenue deficiencies by service classification. Additionally, if Mr. Collins'
251 proposal for an across-the-board revenue allocation was meant to be performed within the
252 ECOSSs, his direct testimony did not provide any support for performing such an
253 adjustment, which would have impacts upon cost classifications within the ECOSSs,
254 which in turn subsequently would have impacts upon rate design. Therefore,
255 Mr. Collins' across-the-board proposal is incomplete and unsupported.

256 **Q. Does this conclude your rebuttal testimony?**

257 A. Yes.